

# WESTPEAK RESEARCH ASSOCIATION

## Pop Mart International Group Ltd (9992 HK)

Consumer Retail – Toys and Entertainment

### Pop Mart Bubble Pops

15 January, 2025

Pop Mart International Group (9992), founded in 2010 in Beijing, China, is a rapidly growing entertainment and lifestyle brand specializing in pop toys and collectibles. The company offers high-quality collectible figures designed by diverse artists, sold in blind boxes to enhance consumer excitement.

#### Industry Overview

The toys and collectibles industry, valued at approximately USD 140 billion in 2023, has seen significant growth, driven by pop culture and rising consumer interest. Key players including Bandai Namco, Funko, and Disney thrive on their popular IPs. Collectible toys, especially limited editions and art toys, are gaining traction, driving secondary market growth.

#### Thesis

9992's stock price rally LTM is a result of hype cycles. The company's hype cycle has begun to decline and the company is running out of inorganic growth runways in their most profitable markets.

#### Valuation

We used a bottom-up approach to model 9992, forecasting pricing and cost growth per sale. Key assumptions include a 27.7% pricing difference between overseas and Mainland China sales, 70% unit sales growth, and 8% quality of sales growth. Our target share price is CNY 50.81, with intrinsic valuations ranging from CNY 49.48 to CNY 58.85. Peer analysis suggests a share price range of CNY 41.10 to CNY 50.45.

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Equity Research	Hong Kong
Price Target	CNY 50.81
Rating	SELL
Share Price (Jan. 15 Close)	CNY 81.80
Total Return	(37.9%)

#### Key Statistics

52 Week H/L	CNY 96.90/16.90
Market Capitalization	CNY 109.9B
Average Daily Trading Volume	5.5M
Net Debt	CNY (6.4B)
Enterprise Value	CNY 116.3B
Net Debt/EBITDA	(4.5x)
Diluted Shares Outstanding	1.3B
Free Float	55%
Dividend Yield	40.5%

#### Analyst Forecast (CNY)

	2024E	2025E	2026E
Revenue	11.6B	17.7B	24.0B
EBITDA	3.0B	4.4B	6.3B
Net Income	2.0B	3.5B	4.7B
EPS	1.51	2.63	3.56
P/E	53.7x	30.8x	22.8x
EV/EBITDA	21.8x	15.9x	12.7x

#### 1-Year Price Performance



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## Company Overview

9992 is an entertainment and lifestyle brand focused on pop toys and collectibles, founded in Beijing, China in 2010. The company specialises in producing high quality pop toys featuring characters created by a diverse range of designers and artists. 9992 both owns proprietary IPs such as LABUBU and DIMOO and collaborates with other IPs including Teletubbies and Genshin Impact. Each collectible character is sold in a blind box containing a mystery figure from a set collection, driving excitement and consumer engagement whenever a unit is sold.

9992 drives a unique business model of weekly merchandise restocks in both their online stores and physical locations. The business operates an omnichannel strategy, owning retail stores and roboshops (vending machines), and maintaining a strong online presence through TMall, Shoppee, and their own proprietary website. As of FY 2023, online sales represented 29.6% of revenues, with the remaining coming from physical sales. Because of the limited supply restocks, the secondary market for their products is very strong and acts as the leading indicator for 9992's future performance.

Pop Mart's FY 2023 revenue is split between Mainland China and Overseas segments, with Mainland China making up 83% of sales and overseas making the remaining 17%. Pop Mart has seen 62% sales growth across all segments YoY in S1 2024 due to consumer trends favouring the company's IPs, with LABUBU in particular charming overseas consumers. As of today, Pop Mart's international popularity continues to grow alongside recognition of their proprietary IPs through social media while the company is broadening their offerings beyond pop toys into other forms of media.

## Industry Analysis: Global Collectibles and Toys

The global collectibles and toys industry is a highly dynamic and diverse sector that encompasses a wide range of products including traditional toys to niche collectibles and limited-edition items. As of FY 2023, the market was valued at an estimated USD 140 billion and is projected to grow at a revenue CAGR of 4-6% YoY over the next 5 years driven primarily by secondary market growth. Companies compete among themselves and with other entertainment media. Key players in the industry include globally popular names such as Bandai Namco, Sanrio, and Funko.

The industry is fundamentally tied together by IPs. Toys and collectibles fundamentally rely on IPs to drive their popularity locally and globally. A strong IP represents additional opportunities for companies to invest in and diversify their portfolio of products. For instance, Pokémon was a video game franchise on inception but has since expanded across other entertainment verticals such as animated shows, live attractions, and toys and collectibles. While the popularity of each company differs greatly from region to region, they are all fundamentally connected through one specific concept: IPs. The success and sales of a company's products is directly tied to IP popularity.

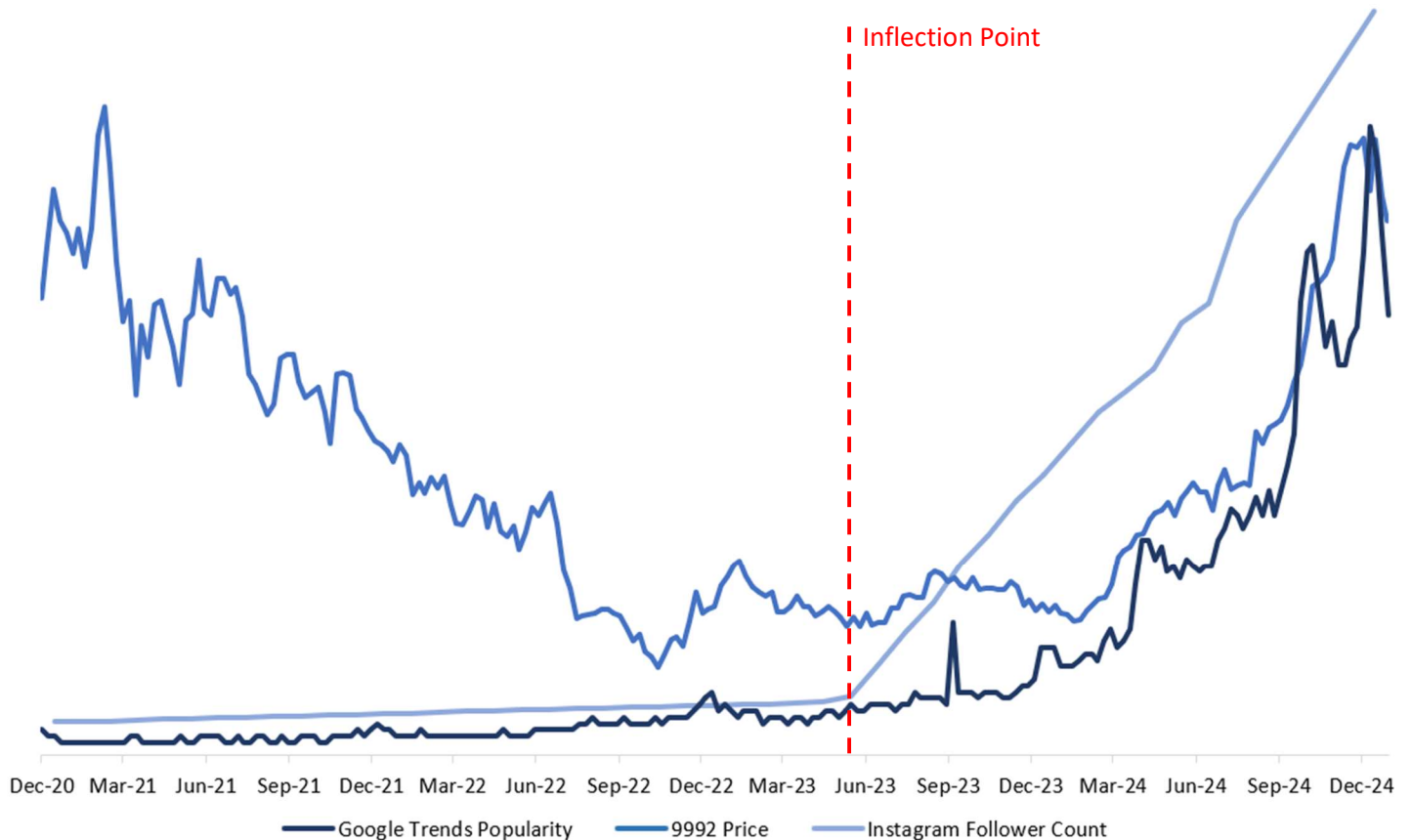
The key overarching trend in the industry over the past 5 years is the rise in popularity of collectible toys including trading cards and blind boxes. These products are marketed towards both adults and children, granting companies a new consumer base to sustain above-GDP estimated revenue CAGR. This new market has subsequently driven the growth in number of scalpers and size of secondary markets to buy and sell specific products. As a result, secondary market turnover and price is the leading indicator of a company's popularity and subsequently financial performance.

## Investment Thesis

9992's LTM stock price rally is a result of hype cycles. Their hype cycle is coming to an end, and the company is running out of inorganic growth runways.

### The Trading View: 9992 Trades on Popularity

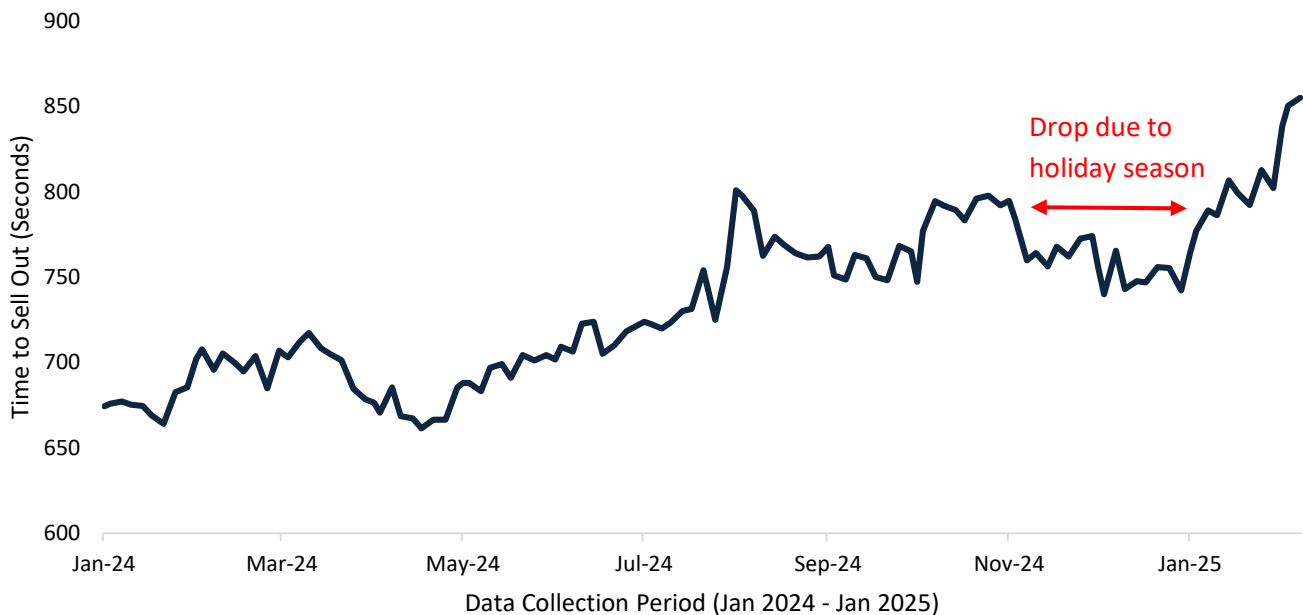
9992 stock fundamentally trades off popularity. We have measured this through use of Google Trends and social media follower count, sourced from SocialBlade. Through a regression of Google Trends popularity to stock price, we have found an  $R^2$  value of 0.81 since January 2023, suggesting a lack of focus on 9992's fundamentals. This is most clearly seen in June 2023, where Instagram follower count picks up just as share prices reach an inflection point. Since then, attention to the company increased dramatically, driving share prices:



Further proof is seen by the discrepancy between movements in EPS and share price:



Following that notion, 9992's popularity has begun to wane. The time elapsed between weekly online store restocks and when they sell out has increased materially by 33.4% YoY from 11 to 14 minutes between January 2024 and 2025:



We sourced this data by web scraping a bot in the Pop Mart Buy and Sell Discord server that notifies whenever there is a restock and whenever a transaction is currently occurring and completed. We believe this to be the clearest leading indicator of falling popularity and infer based on this information that product sales on the secondary market are not as profitable as before. As a result, scalpers are less incentivised to buy as fast as they can and we are confident that the hype cycle is coming to an end.

### **The Fundamental View: 9992 Lacks IP History and is Running out of Inorganic Growth Runways**

First Tier cities in China are Pop Mart's most profitable geographic areas. Average SSS in First Tier Chinese cities are CNY 8.5 million, compared to their next most profitable segment on a per store basis being CNY 7.3 million in sales per store overseas. 40% of Pop Mart's Mainland Chinese sales come from First Tier cities, and 33% of their current retail locations are in these areas. Counting both retail stores and roboshops, there is roughly 1 store per 3 square kilometres in each city. There is little room for opening new locations in their most profitable locations, significantly limiting inorganic growth potential and instead having to rely on SSSG to boost profitability. While growth runways exist internationally and in lower tiered Chinese cities, both are significantly less profitable per store and will not sustain the company's current growth momentum.

In addition, all of the company's most popular proprietary IPs do not have the sustained history and legacy fanbase necessary to maintain strong long term growth potential. Case studies such as Supreme come to mind as the brand's short-term success was astronomical before leaving the public consciousness after 2 years. We expect to see a similar drop in popularity soon, directly translating to slowing sales growth beginning FY2025. Pop Mart's target consumer base is the consumer base with the most dynamic tastes that can change within days and this uncertainty contributes to why we don't see sustained sales growth in the mid to long term with the company's current IPs.

## **Valuation**

We have employed a bottom-up approach to modelling 9992 focused on forecasting the pricing and cost growth on a per sale basis, employing a blended valuation of intrinsic and peer analysis with 60% and 40% weighting to arrive at a target share price of CNY 50.81. Key assumptions in our operating model include the following:

- 28% pricing difference between overseas sales and mainland China sales based on pricing differences for SKULLPANDA's Tell Me You Want series
- 70% YoY unit sales growth for all segments tapering off significantly reflecting the hype cycle
- 8% YoY sales per unit growth consistent with historical figures
- Conservative 10% YoY unit COGS growth YoY compared to a historical 16%
- 40% dividend payout ratio in line with MD&A and historical figures
- Lease raises equal to annual mandatory payments
- Optimistic approach to all other estimates

Our intrinsic valuation assumes a discount rate of 11.5%, with cost of equity assumptions based off Damodaran country risk premiums for Hong Kong and Bloomberg estimates for all other figures. Perpetuity growth and exit multiple methods suggest intrinsic share prices of CNY 49.49 and CNY 58.85 respectively based off a terminal growth rate of 2.0% and exit

EV/EBIT of 10.0x. Our set of peer companies include similar toys and entertainment businesses which are heavily IP driven listed across Asia and the United States such as Nintendo, Bandai Namco, and Hasbro. We sourced multiples from Bloomberg and we have chosen to use FY26 multiples with equal weight on P/E and EV/EBITDA methods to arrive at implied share prices of CNY 41.10 and CNY 50.45 respectively. Valuation methodologies are weighted as follows:

- Intrinsic Valuation – Perpetuity Growth: 30%
- Intrinsic Valuation – Exit Multiple: 30%
- Peer Analysis – EV/EBITDA: 20%
- Peer Analysis – P/E: 20%

## Catalyst

As 9992 is roughly a year into its hype cycle, it is very difficult to say when it will end in the short term. However, clear signs of decline in consumer interest are most clear in the secondary market. 9992 products currently list on the secondary market, including Facebook Marketplace, Amazon, and Taobao, at twice the current retail price. Given the company's weekly releases business model, many of their website sales are scrapers who want to profit off the secondary market. Once secondary market prices start falling across the board, we can expect the company's next earnings to decline significantly.

## Risks

- Licensing IPs leading to increased attention towards the company: Licensed IPs made up 16% of 9992's revenues in FY 2023, representing 38% YoY growth. Due to 9992's current momentum, there are many external IPs willing to partner with the company. Should these external IPs bring more attention to 9992's proprietary IPs, the business can see a sustained level of elevated sales, improving fundamentals.
- Newfound popularity of new or existing IPs: 9992 lives and dies on their IPs, and the extent to which a new IP or developments of older IPs contributes to popularity is difficult to gauge, given the seemingly arbitrary nature of consumer preference. Any one new smash-hit IP could elevate 9992's earnings potential significantly, given the opportunity to branch the IP into other entertainment media.

## Recommendation

From both a trading view and a fundamental view, 9992's popularity has begun to decline. From a fundamental approach, the company is running out of inorganic growth runways. However, we do not see a clear catalyst timeline to cause the realisation of our thesis. Our recommendation is to hold the stock until secondary market prices begin to fall, after which we expect share prices to decline significantly to our target price.

## Appendix

### DCF Summary

In Millions of CNY Except per Share	S1 2024	S2 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Unlevered Free Cash Flows</b>											
Revenue	4,558	7,011	17,742	23,990	29,826	35,135	40,011	44,623	49,137	53,692	58,396
Growth		53.8%	53.4%	35.2%	24.3%	17.8%	13.9%	11.5%	10.1%	9.3%	8.8%
EBITDA	1,435	1,570	4,646	6,313	7,865	9,256	10,504	11,645	12,715	13,743	14,752
Margin	31.5%	22.4%	26.2%	26.3%	26.4%	26.3%	26.3%	26.1%	25.9%	25.6%	25.3%
EBIT	1,020	1,446	4,350	5,905	7,312	8,530	9,576	10,490	11,427	12,342	13,153
Margin	22.4%	20.6%	24.5%	24.6%	24.5%	24.3%	23.9%	23.5%	23.3%	23.0%	22.5%
Tax Expense	264	362	1,154	1,551	1,914	2,233	2,512	2,759	3,015	3,267	3,495
Rate	25.9%	25.1%	26.5%	26.3%	26.2%	26.2%	26.2%	26.3%	26.4%	26.5%	26.6%
NOPAT	756	1,083	3,196	4,354	5,398	6,297	7,065	7,730	8,412	9,075	9,658
Depreciation and Amortisation	415	124	296	408	552	726	928	1,155	1,288	1,402	1,599
Change in Operating NWC	(361)	585	160	244	71	47	(43)	(80)	(134)	(169)	(176)
Capital Expenditures	(186)	(287)	(726)	(981)	(1,220)	(1,437)	(1,637)	(1,825)	(2,010)	(2,196)	(2,389)
Unlevered Free Cash Flows	1,345	336	2,607	3,537	4,659	5,539	6,399	7,140	7,823	8,449	9,044
Discount Period	0	1	2	3	4	5	6	7	8	9	10
Stub		13.3%	1	1	1	1	1	1	1	1	1
Stub Adjusted Unlevered Free Cash Flow		45	2,607	3,537	4,659	5,539	6,399	7,140	7,823	8,449	9,044
Discount Factor		89.7%	80.5%	72.2%	64.8%	58.1%	52.1%	46.7%	41.9%	37.6%	33.7%
Present Value of Unlevered Free Cash Flow		40	2,098	2,553	3,017	3,217	3,335	3,338	3,281	3,178	3,052
<b>Dates</b>			<b>Perpetuity Growth Method</b>								
Most Recent Fiscal Year End	12/31/2023	Perpetuity Growth Rate		2.0%							
End of First Fiscal Year	12/31/2024	Terminal Value		32,211							
Most Recent Period End Date	6/30/2024	Sum of Discounted Unlevered Free Cash Flows		27,109							
Valuation Date	1/24/2025	Enterprise Value		59,320							
Portion of Y1 Cash Flows in Forecast	6.7%	Debt		466							
<b>Discount Rate</b>			Cash		7,010						
Cost of Equity	11.6%	Equity Value		65,864							
Risk Free Rate	2.1%	Shares Outstanding		1,331							
Beta	1.07	Implied Value per Share		49.48							
Country Risk Premium	8.8%	Current Share Price		81.80							
Expected Market Return	10.9%	Upside		(40%)							
Cost of Equity	11.5%	<b>Exit Multiple Method</b>									
Cost of Debt		Terminal EV/EBITDA Multiple		10.0x							
Pre-Tax Cost of Debt	1.8%	Terminal Value		44,673							
Effective Tax Rate	22.2%	Sum of Discounted Unlevered Free Cash Flows		27,109							
Cost of Debt	1.4%	Enterprise Value		71,782							
Market Cap	108,884	Debt		466							
Total Debt	466	Cash		7,010							
WACC	11.5%	Equity Value		78,326							
<b>Capital Structure</b>			Shares Outstanding		1,331						
Current Share Price	81.80	Implied Value per Share		58.84							
Shares Outstanding	1,331	Current Share Price		81.80							
Total Debt	466	Upside		(28%)							

### Peer Companies Analysis

Company Name	Ticker	Market Cap	EV/EBITDA			P/E		
			FY1	FY2	FY3	FY1	FY2	FY3
Nintendo Co Ltd	7974 JP	541,279	22.2x	17.5x	15.6x	30.4x	24.4x	21.2x
Bandai Namco Holdings Inc	7832 JP	107,880	9.5x	9.8x	8.9x	19.2x	19.1x	17.7x
Walt Disney Co/The	DIS US	1,622,562	13.3x	12.1x	11.2x	21.6x	19.1x	17.2x
Warner Bros Discovery Inc	WBD US	176,098	6.3x	6.0x	6.0x	0.0x	0.0x	53.3x
Tomy Co Ltd	7867 JP	19,261	11.2x	10.2x	9.8x	22.2x	19.2x	17.8x
Funko Inc	FNKO US	4,381	8.6x	7.3x	5.5x	142.3x	27.3x	14.9x
Hasbro Inc	HAS US	67,567	10.9x	9.8x	9.0x	16.1x	14.2x	12.6x
Konami Group Corp	9766 JP	104,751	14.7x	13.7x	12.8x	26.3x	23.9x	22.3x
Mattel Inc	MAT US	48,971	7.9x	7.5x	7.2x	12.8x	11.9x	11.1x
Sanrio Co Ltd	8136 JP	60,090	26.4x	23.0x	20.9x	35.6x	30.8x	28.8x
Pop Mart International Group L	9992 HK	100,922	23.1x	17.0x	13.8x	35.7x	26.2x	21.4x
Median net 9992			11.1x	10.0x	9.4x	21.9x	19.2x	17.8x
Average net 9992			13.1x	11.7x	10.7x	32.7x	19.0x	21.7x
1st Quartile net 9992			8.4x	7.4x	6.9x	15.3x	13.7x	14.4x
3rd Quartile net 9992			16.6x	14.7x	13.5x	31.7x	25.1x	23.9x

### Comparable Valuation

Multiple	11.1x	10.0x	9.4x	21.9x	19.2x	17.8x
9992 Denominator	3,005	4,646	6,313	1.51	2.63	3.56
Enterprise Value	33,336	46,475	59,548			
Debt	366	366	366			
Cash	6,825	8,015	9,668			
Equity Value	39,794	54,124	68,850			
Shares Outstanding	1,326	1,317	1,308			
Implied Value per Share	30.00	41.10	52.65	33.19	50.45	63.25
Current Share Price	81.80	81.80	81.80	81.80	81.80	81.80
Implied Upside	(63%)	(50%)	(36%)	(59%)	(38%)	(23%)

### Operating Model: Income Statement

In millions of CNY except per share	2019	2020	2021	2022	S1 2023	S2 2023	2023	S1 2024	S2 2024	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income Statement</b>																			
Revenue	1,683	2,513	4,491	4,617	2,814	3,487	6,301	4,558	7,011	11,569	17,742	23,990	29,826	35,135	40,011	44,623	49,137	53,692	58,386
+ Cost of Goods & Services	593	919	1,732	1,963	1,115	1,321	2,437	1,639	2,918	4,557	7,118	9,803	12,414	14,894	17,275	19,623	22,009	24,494	27,134
Gross Profit	1,090	1,594	2,759	2,655	1,698	2,166	3,864	2,919	4,092	7,012	10,624	14,186	17,412	20,240	22,736	24,999	27,128	29,198	31,263
+ Other Operating Income	17	45	54	46	37	37	75	32	54	85	121	152	175	190	201	207	211	214	215
+ Selling & Marketing	364	630	1,106	1,471	878	1,126	2,005	939	1,596	2,534	3,886	5,255	6,533	7,696	8,764	9,775	10,764	11,761	12,792
+ General & Administrative	142	280	558	686	331	376	707	434	738	1,173	1,666	2,085	2,401	2,638	2,761	2,851	2,907	2,941	2,962
SBC							0			0	0	0	0	0	0	0	0	0	0
+ Other Operating Expense	1	11	28	23	68	111	179	143	243	385	547	685	788	860	907	936	955	966	973
Depreciation							415	124	124	539	296	408	552	726	928	1,155	1,288	1,402	1,599
Operating Income (Loss)	600	718	1,121	520	458	590	1,048	1,020	1,446	2,466	4,350	5,905	7,312	8,530	9,576	10,490	11,427	12,342	13,153
+ Interest Expense	0	0	0	5			2		(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
- Interest Income	(0)	(2)	(29)	(68)	(80)	(105)	(184)	(106)	(3)	(106)	(160)	(193)	(241)	(298)	(366)	(443)	(529)	(622)	(722)
+ Foreign Exch (Gain) Loss	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
+ (Income) Loss from Affiliates	(5)	(4)	(14)	(27)	(17)	(16)	(33)	(18)	(33)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)
+ Other Non-Op (Income) Loss	5	15	(7)	(29)	(63)	(87)	(152)	(84)	(84)	(84)	(84)	(84)	(84)	(84)	(84)	(84)	(84)	(84)	(84)
Pretax Income	598	707	1,171	640	619	797	1,416	1,228	1,448	2,677	4,615	6,204	7,658	8,933	10,047	11,038	12,060	13,068	13,980
+ Current Income Tax	156	191	329	194	150	180	330	276	312	588	993	1,335	1,648	1,922	2,162	2,375	2,595	2,812	3,008
+ Deferred Income Tax	(8)	(7)	(12)	(30)	(9)	6	(9)	(12)	50	39	161	216	267	311	350	385	420	455	487
Income (Loss) from Cont Ops	451	523	855	476	477	612	1,089	964	1,086	2,050	3,461	4,653	5,743	6,700	7,536	8,278	9,045	9,801	10,485
- Minority Interest	0	(0)	0	0	1	6	6	43		43	3,461	4,653	5,743	6,700	7,536	8,278	9,045	9,801	10,485
Net Income, GAAP	451	524	854	476	477	606	1,082	921	1,086	2,008	3,461	4,653	5,743	6,700	7,536	8,278	9,045	9,801	10,485
Diluted Weighted Avg Shares	115	1,211	1,379	1,366	1,346	1,336	1,341	1,331	1,326	1,326	1,317	1,308	1,298	1,289	1,279	1,270	1,261	1,251	1,242
Diluted EPS, GAAP	3.91	0.43	0.62	0.35	0.35	0.45	0.81	0.69	0.82	1.51	2.63	3.56	4.42	5.20	5.89	6.52	7.18	7.83	8.44



Operating Model: Balance Sheet

Balance Sheet table with 18 columns representing years from 2018 to 2024. Rows include Total Assets, Liabilities & Shareholders' Equity, and various sub-categories like Cash, Property, Plant & Equip, and Debt.

Operating Model: Cash Flow Statement

Cash Flow Statement table with 18 columns representing years from 2018 to 2024. Rows include Cash from Operating Activities, Investing Activities, Financing Activities, and Net Changes in Cash.

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